



North American Millers' Association

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**Testimony of
Rick L. Schwein
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Eden Prairie, MN**

**On behalf of the
North American Millers' Association**

**Before the
House Agriculture Committee**

***The Farm Bill – its impact on the
grain milling industry***

September 13, 2006

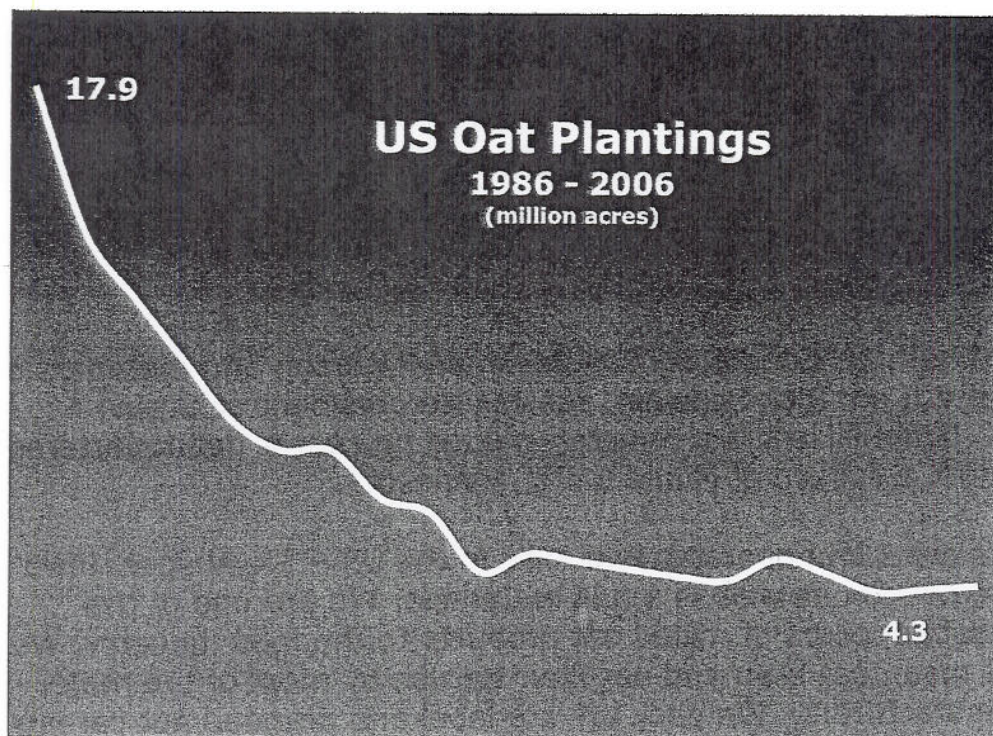
Thank you Chairman Goodlatte, Congressman Peterson and members of the committee. I am Rick Schwein, senior vice president of Grain Millers, Inc. Grain Millers is a privately owned processor headquartered in Eden Prairie, a suburb of Minneapolis, Minnesota.

Grain Millers owns and operates two mills in the US – St. Ansgar, Iowa and Eugene, Oregon as well as a mill in Canada. We are one of the world's largest suppliers of milled oat products to the food industry. We produce oat meal, oat bran and oat flour for use by most of the major US food manufacturers. We pack private label and branded hot cereals and process and blend wheat, barley and rye to meet the growing demand for whole grain products. Our products are used throughout North America as well as exported for use to both Central and South America.

I have been in the grain and milling industry for more than 30 years and am here today representing the North American Millers' Association. NAMA is the trade association representing 48 companies that operate 170 wheat, oat and corn mills in 38 states. Their collective production capacity exceeds 160 million pounds of product each day, more than 95 percent of the total industry production. I will become chairman of NAMA at our annual meeting next week.

Where we are today

2006 oat production was a mere 107 million bushels, the lowest since USDA began keeping records in 1866, shortly after President Lincoln created the Department. For example, in Minnesota, traditionally a leader in oat production, it's as if the top 53 oat producing counties, out of 87 total, just stopped planting oats altogether. The same is true of the other oat producing states.

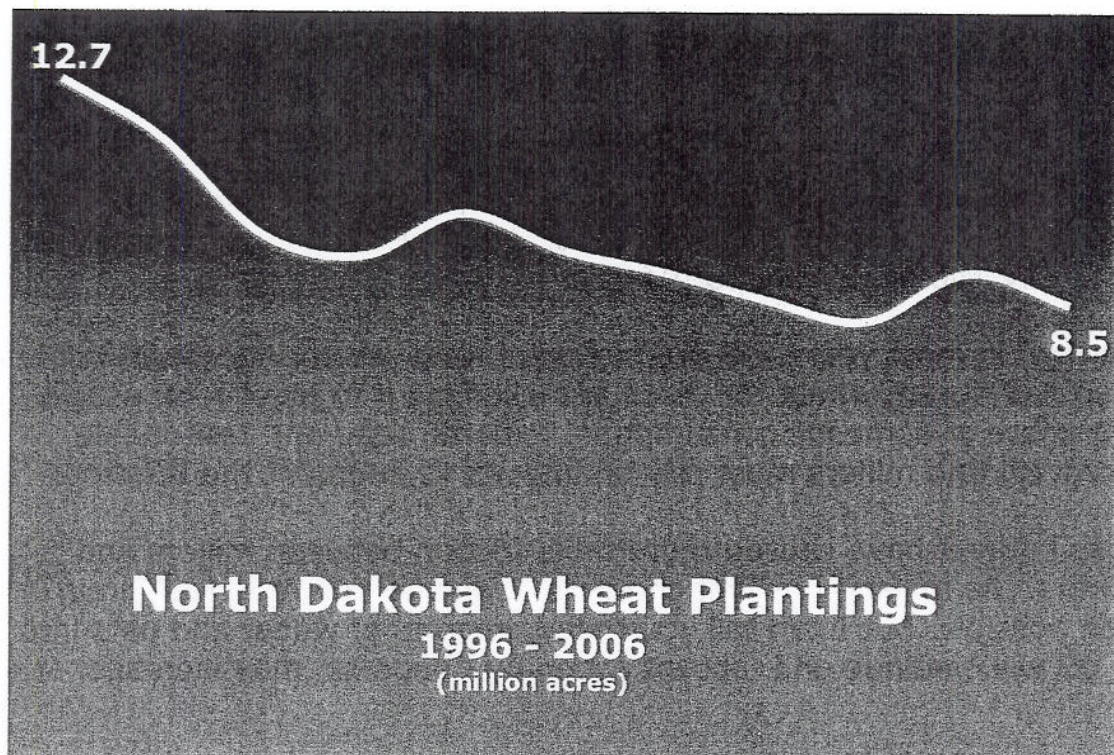


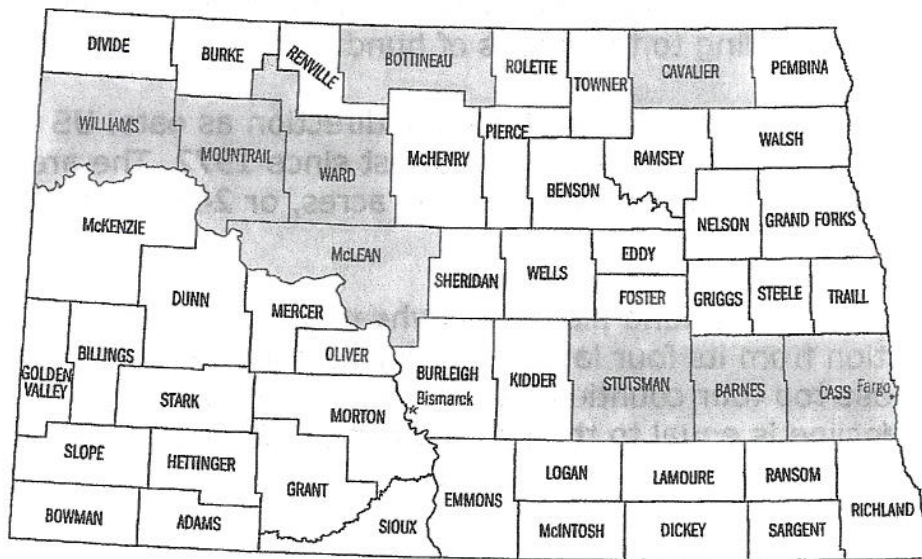
These dramatic production losses have led directly to the major relocation of the oat milling industry over the past 15 years. Since the

early 1990's, a number of millers have ceased operations in the US entirely. That processing capacity moved closer to the production source in Canada leading to the losses of hundreds of industry jobs.

US wheat production is headed in the same direction as oats. US wheat plantings the last three years were the lowest since 1972. The area planted to wheat has dropped by 18 million acres, or 24 percent, in just 10 years.

In Kansas, the decline in land planted to wheat is equivalent to the entire production from its four largest producing counties. It's as if farmers in those top four counties just stopped growing wheat. In North Dakota, the decline is equal to the nine largest producing counties getting out of wheat production completely.





Between 1996 and 2005, North Dakota's annual wheat plantings declined by 4.2 million acres, as if the state's nine largest wheat-producing counties simply stopped planting wheat.

Not too many years ago the thought that the US would import cereal grains was unthinkable. Now, however, food oats consumed in the US are nearly 100 percent imported.

Likewise, in most years, US production of hard red spring wheat for bread and durum wheat for pasta are insufficient to meet total usage (aggregate of domestic consumption, exports, seed and reasonable carryover) and millers must rely on imports to augment the US crop.

Those imports have caused regrettable friction between millers and growers. As millers, our first choice is always to buy American grain when possible. But I can tell you today, imports of wheat and oats into the US will continue and, absent action by Congress, may increase.

How did we get here?

There are multiple reasons for the precipitous declines in wheat and oat production, but I will focus this testimony on these three principal factors: federal farm programs, the Conservation Reserve Program and the agronomic advantages of competing crops.

Federal farm programs – Through the current programs, Uncle Sam is loudly telling growers “Don’t plant wheat or oats!” At the same time the US government is encouraging them to grow other crops like corn and soybeans, which hardly need encouragement given the President’s biofuels mandate, or minor crops like field peas, for which there really isn’t even a market.

Conservation Reserve Program – Since 1986 the CRP has idled as much as 36 million acres, concentrated in traditional wheat and oat growing regions. Some of that land is highly erodible, never should have been planted to crops in the first place, and should remain in some conservation program. However, a major share of the CRP could be farmed in environmentally sustainable ways, especially with modern low or no till practices.

Agronomic advantages of competing crop – Traditionally, wheat was the best crop option for growers on the Great Plains. Corn and soybeans that generated higher returns in the Corn Belt were not suited to the arid climate of the Plains, nor were they suited for the shorter growing season of the northern plains.

In recent years, however, genetic advances in corn and soybeans have changed that equation. Corn varieties flourish in the Plains growing regions, as do short season soybeans that mature before the early frosts of the northern Plains.

In short, now that producers CAN grow corn and soybeans, they ARE growing them. Government policies have made it desirable, but agronomics have made it possible.

While the picture is gloomy, all is not lost. Demand for oat and other whole grain products is rising. The demand for milled flour seems to have stabilized over the past year. Many companies are continuing to invest in processing capacity in the US. Grain Millers, Inc., for example, is in the midst of a \$20 million capacity expansion in Iowa.

We are, however, hedging this bet as we, too, have expanded our capacity in Canada over the past 5 years. Regrettably, the oats for this new milling capacity in Iowa will be grown in Canada.

Recommendations

Farm program – As Congress writes the next farm bill, it has an opportunity to breathe life into these vital strategic industries. For whatever amount of money Congress decides is necessary for a safety net for growers, we implore you to find mechanisms for distributing that money in ways that do not distort their planting decisions. We must end up with a farm bill that allows the market to determine what crops are planted.

Wheat and oat millers are willing to compete with processors of competing crops to encourage farmers to plant more of the cereal grains we need. But we cannot compete with the treasury of the US Government.

Conservation Reserve Program – NAMA supports retaining environmentally sensitive land in a conservation program. However, probably two-thirds of the 36 million acres currently enrolled in the CRP could be farmed without sacrificing environmental goals, especially through low and no tillage farming practices that have evolved since the CRP's inception in 1986.

At the same time, the US' environmental goals can be best met by focusing conservation dollars on waterway filter strips and similar areas which provide the best return on investment. Also, CRP rules must be changed to add flexibility so that growers can respond to market signals without extreme penalties, as is currently the case.

The US is going to need those acres immediately. Discussing the boom in biofuels, USDA's chief economist testified before Congress last week that US corn plantings will have to increase by 10 million acres in the next 4 years just to satisfy the ethanol demand. From where will those acres come? Failure to significantly reform CRP will mean that reducing our dependence on foreign oil may result in increased dependence on foreign grain.

For decades we have known that growing corn after corn after corn is not desirable for either environmental or disease and insect management reasons. Yet that's exactly what is being encouraged.

Another benefit of releasing a substantial portion of the CRP is that it would be an excellent way to respond to the need for land to produce

organic grains, which on a percentage basis is the fastest growing segment of the industry.

Research – Wheat and oat yields lag behind other crop options, especially corn and soybeans. And, with each passing year, the lag for wheat and oats gets more pronounced.

Average annual yield increase

1870 – 2005

(percent)

Corn	3.0
Soybeans*	3.1
Wheat	1.8
Oats	1.1

*USDA began keeping soybean production records in 1930

Wheat and oat research is nearly all federally funded, at a combined total of about \$50 million annually. Compare that with private corn research efforts where multiple companies each invest more than one million dollars every day. No surprise then that wheat and oat yields lag behind, and that disadvantage widens each year.

Summary

It is the height of irony that the US government, through the 2005 US Dietary Guidelines, encourages consumers to eat more grains but at the same time is very directly discouraging growers from producing those same grains.

NAMA believes Congress has a major opportunity to improve conditions for the wheat and oat industry, from grower through end consumer. This can be achieved by reforming the CRP to allow sustainable acres back into production, reforming the farm program to reduce government-caused distortions of production decisions and investing in research to give growers better crop options.

Thank you very much for this chance to share the millers' views. If you have any questions I am happy to answer them.

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Rick L. Schwein

Senior Vice President

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Rick L. Schwein is Senior Vice President for Grain Millers, Inc. headquartered in Eden Prairie, Minnesota. He is also the President of Grain Millers Canada Corp.

Grain Millers operates three mills throughout North America providing both conventional and organic oat, wheat, corn and barley products to food processors throughout the continent.

Prior to joining Grain Millers, Rick was President of La Crosse Milling Company for 10 years after enjoying a 16-year career with General Mills, Inc. in purchasing and grain merchandising functions. Rick is an honors graduate of Michigan State University and has more than 30 years of grain and milling experience.

He has been active in the industry having served on the Executive Committee of the North American Millers' Association for a number of years as well as the immediate past Chairman of the former American Oat Association. He is a former member of the Chicago Board of Trade as well as the Minneapolis Grain Exchange.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules^a require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Rick L. Schwin

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Organization you represent (if any): Grain Millers, Inc.
North American Millers Assoc.

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: Kansas City Commodity Office Amount: \$806,452.13

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: USDA/FAS foreign market development Amount: \$80,000

Source: _____ Amount: _____

Please check here if this form is **NOT** applicable to you: _____

Signature: 

^a Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.